# A TOURISM TAX FOR WALES?

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ABSTRACT

The UK tourism industry has one of the world's highest tax burdens. Most European countries have significantly reduced VAT on their tourism industries to encourage growth, employment and revenue. The imposition of higher taxes has been shown to inhibit growth, employment, revenue and holiday-taking. Tourism outperforms all Welsh Government (WG) priority sectors and is the country's second largest employer. A proposed tourism tax will damage its economic performance, brand and prospects. It will also increase social exclusion, undermine policies to create a more healthy and active Wales, limit opportunities for economic growth in Welsh-speaking heartlands and disproportionately impact those least able to afford to take a holiday.

## 1. Economic Context

1.1 Tourism is more important in the Welsh economy than in any other part of the UK, accounting for 4.9% of economic output compared to 3.7% in the UK. West Wales and the Valleys have a tourism ratio of 5.7%, underlining the sector's key importance to these areas.[1]

1.2 Wales has some of the UK's most tourism dependant local authorities including Anglesey, Gwynedd, Conwy, and Denbighshire, Powys and South West Wales. Tourism contributes £6.9bn Gross Value Added to the Welsh economy (13.9%), supporting 206,000 FTE jobs (14.9%). In terms of GDP, tourism contributes £8.7bn (17.6%), supporting almost a quarter of a million FTE jobs.[2]

1.3 Tourism is a key export industry for Wales, with 80% of visitor expenditure coming from outside Wales.

1.4 Tourism is Wales' second largest employer, outperforming all Welsh Government (WG) priority sectors, stimulating high employment growth, accounting for half of all 16-24-year olds and most women employed in these priority sectors.[3]

## 2. The Tourism Tax Context

2.1 A proposed tourism tax must be understood in the wider tax context. Globally, the UK imposes one of the highest rates of taxes on its tourism industry. Only Switzerland imposes more taxes than the UK. Consequently, the UK is ranked by the World Economic Forum (2015) as 140th out of 141 countries for price competitiveness in the tourism industry, despite the sector being worth £126.9bn (9% of GDP) and 9.6% of employment.[4] The tourism tax burden includes high rates of VAT and Air Passenger Duty (APD), which undermine the sector's potential to contribute to the national economy, damage growth and stifle job creation.

2.2 The World Travel and Tourism Council (WTTC), the leading authority on world travel and tourism, has produced several influential pieces of work highlighting the negative impact of tax and the tax burden on the tourism sector. Authored by the well-respected Oxford Economics (who produce much of the economic analysis/data utilised by government at all levels), the reports demonstrate that:

- the performance and prospects of tourism, one of the key drivers of economies worldwide, are significantly and adversely affected by taxes, limiting growth and job creation;
- tourism already shoulders more of the tax burden than other industries/sectors including finance, construction, health, agriculture and manufacturing, which effectively receive tax discounts.[5]

[1] ONS 2016 The Regional Value of Tourism in the UK 2013, p3
[2] Deloitte 2013
[3] Ken Skates 2015 written statement on the economic benefits of tourism to Wales
[4] Visit Britain, Annual Review, 2016-2017
[5] WTTC (2013) Tax burden on the US travel and tourism sector, Oxford Economics

2.3 WTTC (2012) examined the impact of APD in the UK and concluded that the UK:

- imposes a substantially higher tax rate than other countries, which impose the tax;
- removing APD would generate an additional 91,000 British jobs and £4.2bn extra in GDP in a 12-month period;
- the tourism sector would be significantly boosted by higher numbers of foreign visitors, which would directly boost the UK's tourism GVA, generating further multiplier effects.[6]

2.4 In a similar analysis on VAT on tourism, Professor Adam Blake (a UK Treasury Advisor) concluded: "cutting tourism VAT to 5% is one of the most efficient, if not the most efficient means of generating GDP gains at low cost to the Exchequer."[7]

2.5 Reducing VAT to 5% would stimulate growth and employment, boosting GDP by £4bn a year, create 80,000 jobs over a 2-3-year period, and deliver an additional £2.6bn to the Treasury over 10 years.[8] Talks are in process for such a reduction in Northern Ireland.

## 3. The International Context

3.1 Across Europe, most countries have opted to cut tourism VAT as a key strategy to stimulate their economies and boost employment, putting the UK and its devolved nations at a further competitive disadvantage. 33 countries have cut VAT on tourism while in the Eurozone, 16 of 19 countries have tourism VAT rates of 10% or less. Any tax rise, whether in the form of increased VAT, APD or a locally-imposed tourism tax would damage the tourism industry's competitiveness at what is a hugely uncertain economic time.

3.2 Table 1 details VAT rates across Europe on the accommodation sector. Even Sweden, a high tax economy, has a significantly lower VAT burden whilst Ireland, a direct competitor of Wales, has a rate of 9%.[9]

Table 1: Accommodation VAT Rates Across Europe

| Country | VAT Rate |
|---|---|
| Luxembourg | 3% |
| Belgium | 6% |
| Netherlands | 6% |
| Portugal | 6% |
| Germany | 7% |
| Ireland | 9% |
| France | 10% |
| Italy | 10% |
| Austria | 10% |
| Spain | 10% |
| Sweden | 12% |
| UK | 20% |

[6] WTTC (2012) The Economic Case for Abolishing APD in the UK, Oxford Economics
[7] Cut Tourism VAT Campaign Fact Sheet 2017
[8] Cut Tourism VAT Campaign Fact Sheet 2017
[9] Cut Tourism VAT (19th May 2017) responds to party manifestos

3.3 Ireland is an excellent case study of the impact of tax reductions on tourism. Cutting the VAT rate to 9% in 2011 helped the sector generate an additional 57,000 jobs nationwide as a direct result of increased international visitors to Ireland. This is vital for regional development outside Dublin. Tourism is Ireland's largest indigenous sectoral employer and its government has recognised the need to act to enhance Ireland's competitive edge and capacity in what is a highly competitive sector. The tax reduction has boosted tourism tax revenues from €1.265bn in 2011 to €1.911bn in 2016 (+ €646m).[10]

## 4. Wales

4.1 An additional accommodation-style tourism tax has been proposed for consideration by Welsh Government, who point to its use in some other European Countries.

4.2 The Welsh tourism industry is largely made up of micro businesses/SMEs and the sector is vitally important to rural as well as urban economies, enhancing the provision of facilities and amenities, which are accessed by residents and visitors alike. In Wales, 25% of all VAT registered businesses are in the visitor economy, which has proved to be highly resilient in the face of austerity, offering significant employment opportunities where alternatives are very limited.[11]

4.3 Tourism is vital to regional development and growth. Levying additional tax on a WG priority sector would be counter to policy in most other European countries, which have actively sought to cut tourism tax to stimulate tourism growth, tax revenue, GDP and employment.

4.4 The proposal would be a tax on Welsh export earnings and would damage the industry's future growth prospects, undermine its contribution to the Welsh economy and threaten employment levels.

4.5 Caution should be exercised in imposing any further tax burden on a sector which is already disproportionately taxed vis-a-vis its competitors: a tax burden, which is already limiting growth and employment prospects. Clearly, the accommodation tax in other European countries operates in a much less punitive tax environment, with UK VAT rates more than double most of its competitors.

4.6 VAT is only one tax. APD has also suppressed tourism economic growth, employment prospects and revenue contributions and is recognised across the Senedd and the sector as hampering Cardiff Wales Airport's ability to expand and operate as a hub for international tourism to Wales. Currently 1 in 4 passengers using the airport are visitors to Wales, contributing £58m to the Welsh Economy.

4.7 In its evidence to the '*Selling Wales to the World'* Inquiry, Cardiff Airport highlighted how APD is 'a punitive tax… widely agreed to be damaging to the UK economy'. APD stifles growth, levying additional charges of £23 on domestic growth and £73 on long haul travel and connectivity.

[10] ITIC (2017) 9 Reasons why 9% matters
[11] WTA response to Selling Wales to the World Inquiry, 2017

4.8 Reducing or abolishing the tax will grow tourism to Wales and increase jobs supported by Cardiff Airport by 27%, growing its GVA by 28%. WG has indicated it would lower or abolish the tax if it were devolved,[12] which has significant cross-party support in the Senedd.[13]

4.9 Recognising the VAT tax burden, Plaid Cymru's 2017 manifesto included a reduction in tourism VAT to 5% as an explicit policy, stating that existing tourism taxes are "unfair". Liberal Democrat policy also supports a cut in tourism VAT.

4.10 The imposition of an additional tax has major implications for Brand Wales and for already marginalised groups in society. A Welsh tourism tax would generate significant negative PR along the lines of 'paying for the privilege to holiday in Wales'. Wales' experience of the Severn Bridge tolls underlines this, highlighting the dampening effect of tolls on visitor numbers, trade and traffic, which are all predicted to grow once tolls are lifted.

4.11 From a social equality perspective this tax would punish those least able to pay, those who already struggle to take any kind of holiday, which is regarded as a human right and right of citizenship. It would also make tourists less likely to choose Wales, opting instead for one of its competitor UK destinations.

**5. Conclusion**

5.1 The effective utilisation of tax policy is demonstrably and critically important for the tourism industry. The UK has one of the world's highest tourism industry tax burdens. Most European countries have chosen to significantly reduce the VAT on their tourism industries to encourage growth, employment and revenue. The imposition of higher taxes has been shown to inhibit growth, employment, revenue and holiday-taking. This will hit those who are least able to afford to take a holiday, further excluding them from citizenship and social inclusion in an everyday practice, which many of us take for granted.

[12] WTA response to Selling Wales to the World Inquiry, 2017
[13] Written evidence submitted to the Selling Wales to the World Inquiry by Cardiff Airport